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Soviet Economic Problems: Labor Productivity

As the final speaker in your two day study of the Soviet economy, I find myself in a position where it is difficult to say anything that is really new. So if some of the points in my brief presentation sound familiar to you, this is because I think they are important enough to warrant some repetition. And if I do succeed in saying something new, we can congratulate each other at the coffee break.

To my mind, the most serious problems confronting the Soviet economy center around labor productivity. For the first time in its history, the Soviet Union is faced with a shortage of labor. There are two primary reasons for this - first, the low birth rate of World War II and the early postwar period, and secondly, the inability to divert additional agricultural labor to industry, at least for the time being.

The labor shortage is going to plague the Soviet leaders for a long time. The increment to the labor force during the period 1957-1962 will be about 5.7 million. This compares with 8.4 million in 1950-1955, or an absolute decline of 2.7 million. To be sure, some additional diversion of military personnel to civilian occupations would ease the problem, but the absolute shortage would still be formidable. The Soviets are well aware of their problem. In his 19 December speech to the Supreme Soviet, planning chief Kuzmin stated that increases in industrial

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output depend largely on productivity increases. No one can doubt that improvement is possible, or that the Soviets have a very long way to go to catch up to the United States in this area. Let's look at a few figures.

#### BRIEFING AID

##### USSR and US Population and Employment

We can see from this chart that:

1. The USSR has a higher proportion of population in the civilian labor force - 47 per cent compared with 40 per cent in the US.
2. Although the size of the industrial labor force in the two countries is about the same, the value of US industrial production is about three times that of the Soviet Union. In rough terms this 3 to 1 ratio is a useful general measure of relative industrial productivity in the two countries.
3. If industrial labor productivity in the Soviet Union is low by our standards, agricultural productivity can only be described as abysmal. In their country it takes 1 farm worker to feed four people, compared to a 1 to 21 ratio in the United States.

Apart from the emphasis on technological innovation to improve labor productivity, the major recent shift in internal economic policy centers around agriculture and housing.

The agricultural program is extremely ambitious. It has

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two aims - first, to raise the quality of the Soviet diet to levels approximating that of the United States, and second, to increase agricultural productivity to the point where the transfer of workers to industry can be resumed. The Soviet diet has been uninspiring. A typical worker complaint when urged to increase output has been, "why work harder to earn more rubles when all it will buy is more black bread?" Let's take a look at comparative diets in the USSR and in our own country.

#### BRIEFING AID

##### USSR and US Average Diets

From this chart, we can see that:

1. Soviet diet is adequate in calories, with over 3,000 per capita.
2. However, it is overwhelmingly a grain and potatoes diet. These two staples constituted 70 per cent of the caloric intake in 1956.
3. The diet, by U.S. standards, is deficient in fats and oils and milk.
4. The widest discrepancy was in meat. In the U.S., 13 per cent of the daily caloric intake was accounted for by meat and fish, compared to only 4 per cent in the Soviet Union.

Khrushchev has called upon Soviet agriculture to match the United States in per capita output of milk by 1958 and of meat by 1960-61. I wouldn't take these specific dates too

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seriously. It seems clear that the agricultural goals are too ambitious, and that many more years will be required for their achievement. I would like to make two points about these goals.

1. The Soviet leaders are serious about them.

They have already diverted sizeable amounts of money away from industrial investment to agriculture to make some progress in the diet.

2. Popular expectations have been raised by the frequently repeated promises of agricultural improvement. Khrushchev is personally identified with them. In the Soviet Union, where resources are chronically over-committed and where priority adjustments are continuously necessary, agriculture has traditionally been a stepchild. When the inevitable cuts came they invariably fell on the consumer sector. But apparently this is no longer possible. If we are right in thinking that the present agricultural investment allocations are not enough to achieve the loudly trumpeted goals, then additional funds must be made available. And if Khrushchev feels compelled to keep his agricultural promises to the Soviet people, a reduced industrial growth rate may persist for a long time.

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As a further prop to worker incentives, the Soviets have begun to implement plans for easing the chronic housing shortage, a cause of widespread dissatisfaction. Current living-sleeping space for a family of four is about 13 feet by 13 feet. This is less than half that available in Italy and about one-third that of the United Kingdom. Khrushchev has promised a 15 per cent improvement <sup>by 1960 and that the</sup> housing shortage will be overcome in the next 10 to 12 years.

In keeping with these objectives, the Soviets last month announced a planned 30 per cent increasing in urban housing construction for 1958. If this plan is carried through, housing will comprise about one-third of total construction expenditures this year. This means, of course, a diversion of building materials away from industry.

Whether this two-pronged attack on the productivity problem will succeed is, of course, conjectural. The agricultural and housing goals need not be reached absolutely for the Soviet leaders to realize their goals. The establishment of a trend in improvement of living standards - the acceptance by the workers of the idea that things are getting better and will continue to get better may be sufficient to bring out the degree of cooperation with the regime that is necessary.

On the other hand, the failure to achieve tangible progress in raising living standards would considerably undermine Khrushchev's

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attempt to create an image of a regime dedicated to popular welfare and determined to fulfill its promises to the people. Such a failure would tend to weaken popular support and might even, by its effect on worker incentives, damage the prospects of economic growth. To some extent, therefore, the regime's freedom of action has been diminished.

Promised improvements in diet and housing ~~donot~~, of course, mean that per capita consumption will be raised across the board to anything approaching the U.S. level of living. Despite the eroding of the traditional Stalinist priorities, primary emphasis continues on military preparedness and heavy industry, and per capita consumption as a whole is only about 20 per cent that of the U.S. This is clearly seen when the output of capital and durable consumer goods are compared.

#### BRIEFING AID

##### Production of Selected Capital and Consumer Goods

This chart shows:

1. Soviet output of coal, machine tools and steel range from 50 per cent of U.S. output to 200 per cent.
2. In contrast, Soviet output of automobiles, washing machines and refrigerators from less than 2 per cent to 4 per cent of those in the U.S.

Some competent Soviet students believe that it is impossible to educate the masses of the people and maintain a low overall

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level of consumption for very many years. They also believe that it is impossible to start a trend of improving consumer welfare without it having a snowball effect. That is to say, improvement in living standards breeds additional pressure for further improvement. I am not competent to discuss this thesis. It is a sociological and not an economic one. It is however, of key importance, because if true it means:

1. First, a further shift in investment toward consumer industries, and possibly a dramatic shift, and,
2. Second, an increase in the proportion of total product going into consumption at the expense of investment.

My own guess is that what the sociologists are talking about is more apt to be evolutionary than revolutionary, more a matter of a few generations than a few years.

In summary, then:

1. The Soviet Union today and for at least 5 years into the future and probably for 10 years, is and will be plagued by a shortage of labor.
2. In an effort to increase labor productivity, concessions in the form of a much improved diet and somewhat better housing have been made.
3. To fulfill these promises, significant diversions of investment funds have already been made and probably will continue to be made.

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4. The effect of these shifts will be to reduce the spectacular rate of economic growth which has been an outstanding feature of the Soviet economy in the post-war years, and finally,

5. There is some possibility, although I believe a slim one, that the program of worker incentives may snowball, radically changing the face of the Soviet economy as we know it today.